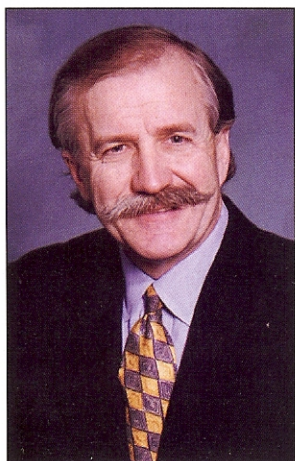


new tax incentives



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RECENTLY, THE FEDERAL GOVERNMENT ENACTED THE ECONOMIC STIMULUS Act, which should be an incentive for more investment in horses.

The new law includes two tax incentives that would permit a larger write-off for horses and certain other property purchased and placed into service in 2008.

The first incentive increases the expensing allowance for horses purchased and placed into service in 2008 from \$128,000 to \$250,000. This allowance also applies to farm equipment and other depreciable property. After the total purchases of horses and other eligible property reaches \$800,000, the expense allowance goes down one dollar for each dollar spent on eligible depreciable property over \$800,000.

For example, if an equine business owner purchases \$350,000 of depreciable property in 2008, including \$300,000 in horses, that business can write off \$250,000 on its 2008 return and depreciate the balance. On the other hand, if the purchases totaled \$850,000, the expense allowance would decrease by \$50,000. In either event, the amount of any purchases not expensed may be eligible for the bonus depreciation, the second incentive contained in the Act.

The second incentive allows a 50 percent first year bonus depreciation for horses and other depreciable property purchased and placed into service in 2008. However, it does not apply to property that has a depreciation life of over 20 years. In addition, the property must be new. This means that the original use of the horse or other property must begin with the purchaser of the property to be eligible. Moreover, there is no limit on the amount of bonus depreciation that can be taken, as there is with expense deductions.

In the above example of the equine business owner who purchases \$300,000 in show horses and an additional \$50,000 in other eligible depreciable property, for a total of \$350,000 in 2008, the business would be entitled to expense \$250,000, deduct another \$50,000 of bonus depreciation and take regular depreciation on the remaining \$50,000. The bonus depreciation was calculated by taking 50% of the difference between \$350,000 and the \$250,000 amount expensed. It is important to note however, that the horses must never have been shown or used for any other purpose before the purchase.

As with all matters involving tax issues, the business owner is well advised to consult with an experienced accountant or tax attorney before investing large sums of money. Nevertheless, although the economy appears to be in the doldrums, for the astute equine investor, the time may be right to invest in horses and take advantage of the favorable new tax incentives.

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